

IDAHO FORECAST DESCRIPTION

The Forecast Period is the Second Quarter of 2004 through the Fourth Quarter of 2007

Like its national counterpart, the outlook for the Idaho economy has changed. Unlike its national counterpart, the change is not easy to perceive. Indeed, a cursory look at the data leaves one conflicted. Two key economic indicators serve as an example of this paradox. Idaho nonfarm employment is higher each year compared to the previous forecast. However, Idaho real personal income is lower than its predecessor in three of the four years in the current *Forecast*. There appears to be an inconsistency between the employment and personal income data. However, a closer look at the data reveals these two measures are more consistent than they may have seemed at first blush. Clearly, a deeper look at the data is required. They both point to an Idaho economic outlook that is stronger in the short run, then grows slightly slower in the long run compared to the previous *Forecast*.

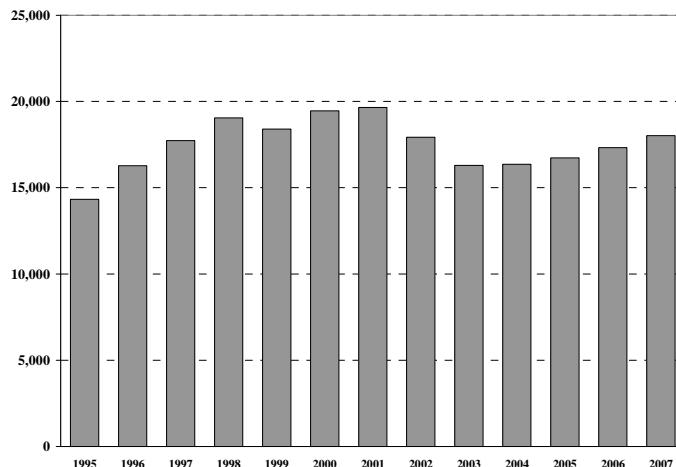
Idaho nonfarm employment is reviewed first. As was mentioned above, it is higher than had been previously forecasted in July of this year. For example, nonfarm employment is expected to be 4,500 higher in 2004. Some of this increase reflects the availability of new data that shows construction employment was much stronger in the first half of this year than had been previously believed. Another reason employment is higher is because of a series break that caused Idaho non-education government employment to jump about 1,400 at this year's start. A close look at the employment data shows the differences between the current and previous employment forecasts narrow over time. By the end of 2007, there are only 990 more jobs than in the previous *Forecast*. This implies that after getting a head start in 2004, Idaho nonfarm employment advances slower in the remaining years of the forecast. This is true. In the July 2004 *Idaho Economic Forecast*, Idaho nonfarm employment averages 2.0% annual growth. This is slightly faster than the 1.8% annual pace anticipated in the current *Forecast*.

The Idaho personal income projections reveal a story similar the employment data. For example, Idaho nominal personal income in the current *Forecast* starts out \$70 million (0.2%) higher in 2004 than in the previous *Forecast*. However, by 2007 it is \$146 million lower (-0.3%) than the previous projection. The decline is more pronounced when the personal income forecast is adjusted for inflation. Specifically, Idaho real personal income goes from being \$7 billion above its predecessor in 2004 to being \$233 billion (-0.6%) below it in 2007. This occurs because real personal income grows slower over the forecast period than in the previous forecast. In the current *Forecast* real personal income growth averages 3.5%. It averages 3.6% in the previous *Forecast*.

In summary, the outlook for Idaho's economy has changed. Over the next few years it will grow slightly slower than had been previously forecast. What has not changed is that the Gem State's economy should out perform the national economy. Over the forecast period, Idaho nonfarm employment should expand 1.9% per year, which is above the nation's expected 1.2% pace. Idaho real personal income also grows faster than the U.S. pace.

SELECTED IDAHO ECONOMIC INDICATORS

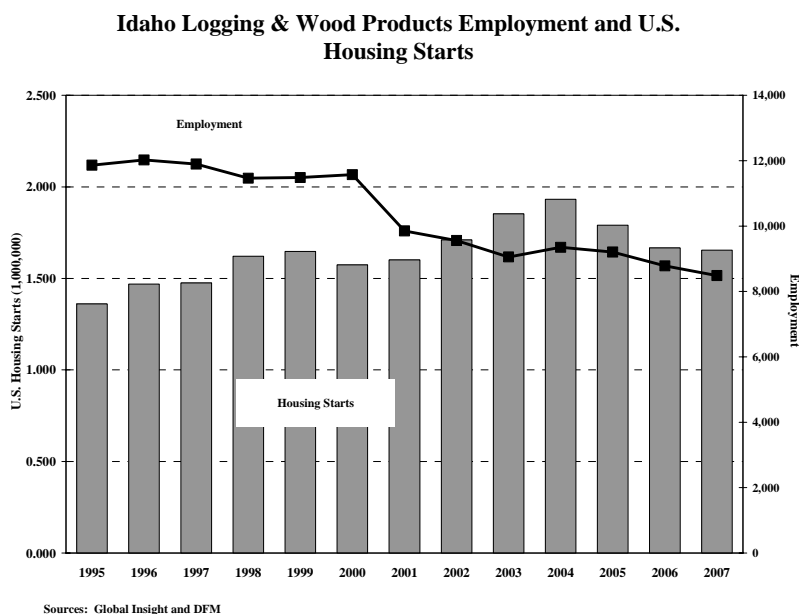
Idaho Computer & Electronic Products Employment



Computer and Electronics: The case for a return to growth for Idaho's computer and electronics sector continues to build. Not only does the current forecast indicate employment will increase, the rate of expansion has been raised above the previous projection. After experiencing job losses over 11 consecutive quarters, Idaho's high-tech employment posted a 3.3% annual gain in the first quarter of this year and 4.5% in the second quarter, which was almost twice as fast as had been previously forecast. This is a welcome change from this sector's recent string of job losses. Idaho computer and electronics employment peaked at nearly 20,700 in the first quarter of 2001 then shed nearly 4,700 jobs through the end of 2003. In 2001, Jabil Circuit,

Micronpc.com, SCP Global Technologies, Micron MCMS, AMI, and Hewlett-Packard reduced their staffs. As a result, this sector's employment growth slowed from 5.7% in 2000 to 1.0% in 2001. The Gem State's computer and electronics sector suffered another round of layoffs in 2002, which caused employment to decline 8.8% in that year. Much of the job contraction occurred because of the real decline in business investment caused by the implosion of the high-tech bubble. With the fallout from that event finally behind, both real business investment and Idaho's computer and electronics employment should expand. Real investment in computers began picking up steam in the second half of last year and Idaho high-tech employment followed after about six months. The outlook for expanding real investment in computers translates into the projection for several years of employment growth in Idaho's computer and electronics sector. It should be noted that attractive tax treatments for investments expire this year. This will contribute to an estimated 44.9% surge in computer investment in the last quarter of this year followed by an 11.1% decline in the first quarter of next year. This swing will have a negligible impact on the pattern of Idaho computer and electronics job growth. Real investment on computers should proceed more smoothly after the beginning of next year. Specifically, this measure expands 26.5% in 2004, 17.9% in 2005, and about 21.0% in both 2006 and 2007. The quickening pace of real investment reflects the anticipated replacement demand for computers and peripheral devices. Computer systems and software purchased during the last expansion are quickly becoming technologically obsolete. As a result, businesses need to upgrade and/or replace them soon. Demand for computers and peripherals should also be augmented by the high productivity returns for investing in technology. Idaho's computer and electronics sector employment was previously forecast to be flat in 2004 then rise 1.9% in 2005, 3.1% in 2006, and 3.9% in 2007. In the current forecast, the number of jobs in this sector increases 0.4% this year, 2.3% next year, 3.6% in 2006, and 4.0% in 2007.

Logging and Wood Products: Idaho's logging and wood products employment is expected to experience a rare gain in 2004, its first in four years. This year's employment increase suggests the Gem State's logging and wood products sector may finally be enjoying the fruit of the strong national housing market. This has been a long time in coming. Idaho's lumber and wood products sector has been shedding jobs and shuttering mills even though the U.S. housing market has been strong. This sector has traditionally prospered when the U.S. housing industry is healthy. The housing industry has indeed done well recently. The number of U.S. housing starts has increased in every year since 2000, and



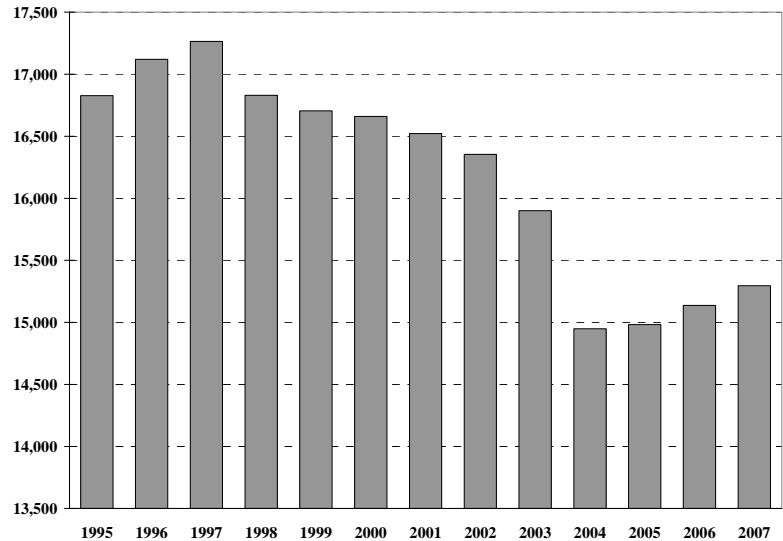
nearly 1.9 million starts are expected in 2004—its strongest showing since 1978. It would be reasonable to expect Idaho lumber and wood products employment to rise under such strong demand, but it has not. This sector's employment last peaked in 2000 at about 11,600 jobs. It has fallen in each of the three subsequent years. The worst year was 2001, when employment declined a whopping 14.9%. Employment fell by another 3.0% in 2002 and 5.3% in 2003. The closing of several mills over this period caused a portion of these declines. Approximately 125 jobs were lost when Boise Cascade shuttered its Cascade, Idaho mill in 2001. About 250 jobs were lost in 2002 when the company's Emmett, Idaho mill closed. Potlatch ceased operations at its Jaype Mill near Pierce, a move that cost about 215 jobs. Louisiana-Pacific closed its Bonners Ferry mill, putting about 140 people out of work. One of the reasons these mill closures are distressing is because their job losses are permanent. Unlike cyclical layoffs, where employees are recalled when business conditions improve, workers from closed mills have no place to return to work. It should also be pointed out that these jobs tend to be high-paying jobs and the mill is often a community's major employer. As a result, the fallout from a mill closure is felt not just inside the mill's gate, but also throughout the community. Interestingly, Idaho mills may have recently benefited from the recent increase in the value of the Canadian dollar, which has made Canadian products more expensive compared to their American counterparts. Industry experts at Random Lengths Publications have speculated smaller Canadian mills were counting on a more favorable exchange rate to remain in business. While demand factors have influenced this sector's recent fortunes, its long-term outlook will be dominated by supply factors. Strong markets in the 1990s led to heavy capital investment in this sector. As a result, it is estimated the industry can produce 20% to 25% more lumber than is being consumed in North America and Canada. Also, the industry's problems have been compounded by the dearth of timber available from federal lands. A look at the last decade's harvests shows how steep the decline has been. According to the U.S. Department of Agriculture, 739 million board feet (mbf) were harvested in Idaho in 1991, or about 41% of the state total. In comparison, federal lands in Idaho yielded just 102 mbf a decade later, which was less than 10% of the total harvest. In addition, unresolved fair trade issues between the U.S. and Canada are another source of uncertainty regarding future supplies. Idaho logging and wood products employment is expected to rise 3.3% in 2004, decline 1.5% in 2005, 4.6% in 2006, and 3.3% in 2007.

Food Processing: The state's large food processing sector received some good news recently. Gossner Cheese of Logan, Utah recently announced plans to build a new plant in the Mini-Cassia Industrial

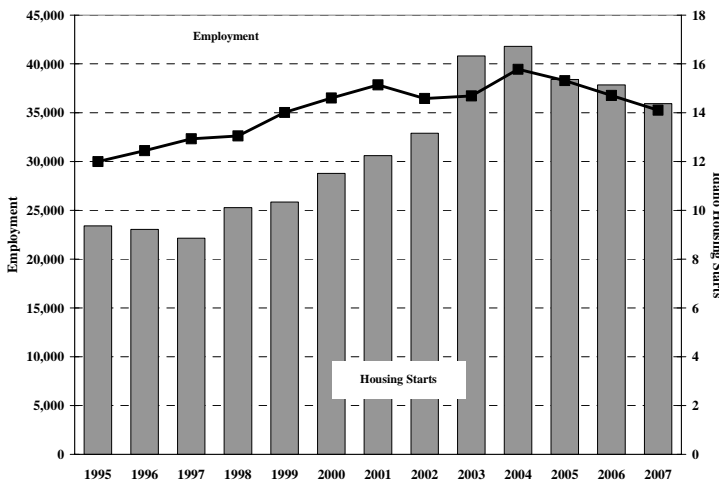
Park. Building the new facility will require over 100 construction workers, and the plant will create over 40 jobs when it becomes operational in October 2005. This new plant is symbolic of the growing presence of dairy industry in the state. According to the USDA, the size of Idaho's dairy herd has grown from nearly 208,000 cows in 1994 to 404,000 cows in 2003. Over this same period, milk production more than doubled from 3.8 billion gallons to 8.8 billion gallons because of the increased output per cow. The amount of milk sold to plants also more than doubled during this time. Milk cash receipts grew from a little

under one-half billion dollars in 1994 to over one billion dollars in 2003. The opening of the new Gossner plant is also a welcome change from the recent string of plant closings. Nearly 360 jobs were lost when unfavorable business conditions caused J.R. Simplot Company to also close its Nampa meat packing plant in the fall of 2003. In addition, J.R. Simplot Company recently shuttered its Heyburn potato processing plant. The plant was built in 1960 and had run continuously since that time. However, former processing sites could be the home of new jobs. J.R. Simplot Company gifted the entire property of its Heyburn plant to the City of Burley. The City of Burley has retained the Boyer Company of Utah to manage the former Heyburn plant site and recruit businesses to the Mini-Cassia Industrial Park. The Gem State's food processing sector will start to experience some long-awaited employment gains beginning in 2005, but these increases will not be robust enough to offset the losses it has experienced in recent years. This sector's employment last peaked at 17,263 in 1997. After experiencing a 6.0% loss this year, Idaho food processing employment is projected to rise 0.2% next year and about 1.0% in both 2006 and 2007. In the last year, employment should be 15,295, or about 2,000 lower than its 1997 peak.

Idaho Food Processing Employment



**Idaho Construction Employment
& Housing Starts**



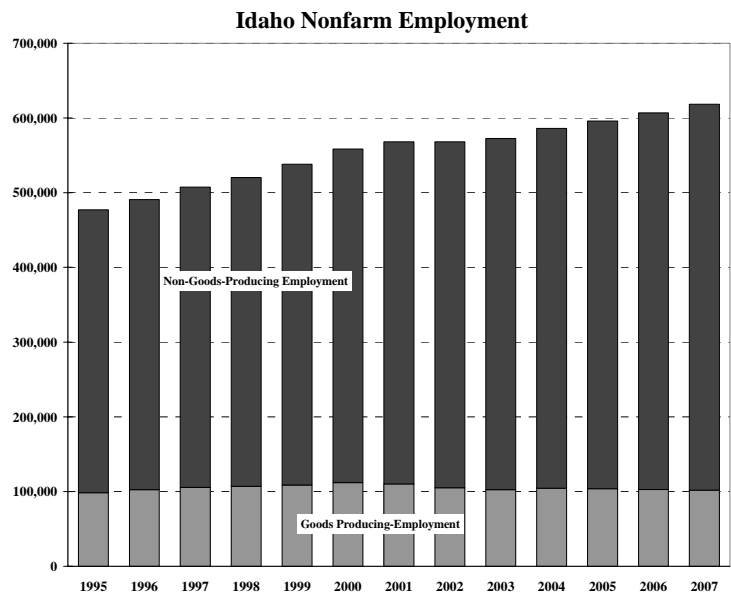
Construction: Idaho's construction sector once again defied the previous forecast by advancing faster than had been earlier predicted. Total Idaho housing starts expanded at a 15.9% annual pace in the second quarter of 2004. In July 2004, it was predicted Idaho housing starts would fall at a 9.2% annual pace in that quarter. A strong showing in multiple-unit starts accounted for a large portion of this strength. Specifically, multi-unit starts were 2,487, which was 517 higher than had been previously forecast. Construction employment was stronger than anticipated in both the first and second quarters of this year. In July 2004, construction employment was projected to increase 4.8% in the first quarter of 2004 and

decline by 4.9% in the following quarter. New data show this forecast was too low. Idaho construction employment advanced at a 16.3% rate in the first quarter followed by 11.7% in the second quarter. As a result, Idaho construction employment was at 39,980 in the second quarter of 2004, or about 2,500 higher than had been previously forecast. Although Idaho's construction industry has displayed surprising strength recently, it will eventually yield to the negative influences of rising mortgage interest rates and cooling population growth. While these factors may cause the construction sector to sputter, this important engine of economic growth is not expected to collapse. Over the forecast period total Idaho housing starts are expected to fall from 16,329 in 2003 to 14,372 in 2007. Likewise, Idaho construction employment should decline from a high of 39,443 in 2004 to 35,258 in 2007. These declines in Idaho housing starts and construction employment should be put in perspective. They represent a retreat from high levels of activity, and they are healthy by historical standards. Likewise, Idaho construction employment should retreat, but still remain comfortably above its historical average.

Nongoods-Producing Industries:

Nongoods-producing employment accounts for eight of every ten nonfarm jobs in Idaho. The two largest nongoods employers are services and trade, representing three-fourths of nongoods-producing employment, or over 60% of Idaho total nonfarm employment. The services category is the larger of the two categories. The three largest services components are: professional and business services; education and health services; and leisure and hospitality services. Professional and business services should be one of strongest performers. After experiencing a relatively anemic showing in 2003, professional and business services

employment should expand an average of 3.8% per year through 2007. Education and health services employment should benefit from increased demand for health services caused by the aging population. Education and health services should grow 3.3% annually. The outlook for leisure and hospitality employment will be determined by several factors. On the plus side, domestic tourism is expected to benefit from the weak dollar, high airline fares for international travel, and fears about traveling abroad. On the minus side, Idaho travel could be hampered by high gasoline prices. Leisure and hospitality services employment is forecast to increase an average of 3.2% annually. The next group consists of financial services; transportation, warehousing, and utilities; and other services. Financial services employment growth is projected to average 2.3%, while transportation, warehousing, and utilities are expected to average 1.8% growth. Other services should advance 2.0% yearly. The smallest sector is information services. Idaho's high-quality labor force should continue to attract call centers, with the number of information services jobs growing 3.4% annually. The trade category consists of retail and wholesale components, with retail being the larger of the two. Retail trade should average 2.3% growth over the forecast period, while wholesale trade advances at a 0.9% yearly pace. Overall, total employment in Idaho's nongoods-producing sector is forecast to rise 2.4% in 2004, 2.2% in 2005, 2.4% in 2006, and 2.4% in 2007.



Government: Idaho state and local government employment growth is forecast to slow as the state's population growth cools. The relationship between government employment and population growth is well documented, but some history adds perspective. From 1990 to 2000 the Gem State experienced a boom during which its population grew over 27%, or an average of about 2.5% per year. In comparison, the U.S. economy grew about half as fast as Idaho during that decade. Idaho's fast-growing population increased the demand for government services, and overall state and local government employment growth averaged 3.0% from 1991 to 2000. Since the new millennium's start, Idaho's population has downshifted, and has averaged about 1.7% per year. Idaho's slower population pace is due largely to the anticipated decline in migration. Historically, Idaho's population growth spurts have been fueled by migration. For example, new arrivals poured into Idaho during the last decade. At its peak in 1993 and 1994, more than 27,000 persons entered the state than left it. By the decade's end net migration had slowed to about 13,000, and it is expected to drop below 10,000 by 2007. Idaho's population is forecast to expand about 1.5% annually over the forecast period. While important, population is not the sole determinant of government employment. The number of state and local employees is also determined by how many workers governments can afford. In Idaho, state-mandated budget caps for local governments limit local government budgets. In addition, state spending is subject to the requirement that the budget is balanced. Under these conditions, Idaho state and local government employment should grow less than 1.0% per year. The exception to this is 2004, where employment jumps 2.1%. This increase is largely due to a series break in the noneducation related data. Beginning with 2004, Idaho's Department of Commerce and Labor began using improved estimates for Idaho noneducation related government employment. However, at this time, the years prior to 2004 have not been revised. The result is a series break that manifests itself as a 13.9% annualized rate of change in employment from the last quarter of 2003 to the first quarter of 2004. On an annual basis, Idaho noneducation related employment should advance 3.0% in 2004, decline 0.9% in 2005, and rise 0.1% in both 2006 and 2007. In comparison, the state's education employment is stronger. Specifically, it is projected to increase about 1.2% per year. The federal government component is a relatively small part of Idaho employment. It accounted for 13,621 jobs, or about 2.4% of total nonfarm employment. In contrast, there were nearly 100,000 state and local jobs in Idaho. Unlike state and local employment, the number of federal jobs in Idaho is set by factors beyond its borders. Federal budget writers in Washington, D.C. mainly determine federal employment in Idaho. The return of federal deficits does not bode well for Idaho federal government employment, especially since there is a relatively small military presence in the state. Federal government employment in Idaho is expected to shrink slowly over the next few years, going from 12,981 in 2004 to 12,732 in 2007.

